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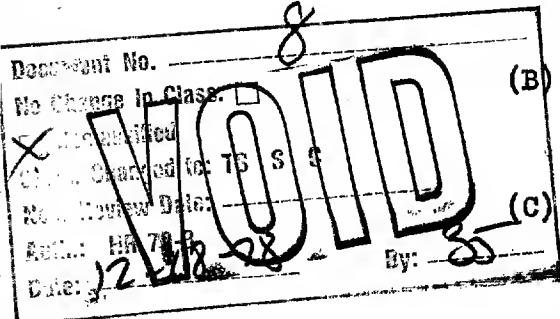
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1 September 1955

MEMORANDUM FOR: Acting Deputy Director (Support)

SUBJECT: Administrative Overhead Costs of GEHA

REFERENCES: (A) Memorandum for Deputy Director (Support) from General Counsel; Subject: Purchase of Office Machines for Use by GEHA, dated 28 April 1955.
 (B) Memorandum for Deputy Director (Support) from Chief, Management Staff; Subject: Costs of Administering the Agency Insurance Program and the Casualty Affairs Activities.
 (C) Memorandum for Acting Deputy Director from Chairman of the Board, GEHA; Subject: "Your Question: What Administration Costs Are Absorbed by Other Government Agencies in Connection with Insurance and Hospitalization Plans?", dated 22 August 1955.



1. In Reference A this Office expressed the opinion that, to the extent that a portion of the total administrative overhead costs of GEHA are normal to any similar organization, such costs should be borne by the membership. The opinion recognized that the total overhead costs of operating GEHA are increased by the security demands of the Agency and that such abnormal expenses should be borne by the Agency. We suggested that a study be undertaken to determine the normal administrative expenses of similar organizations where security considerations were not involved and as a result of this study, that the total overhead costs of GEHA be apportioned between the membership and the Agency.

2. In reply to our memorandum, Reference B recommended that on the basis of the information set forth therein, "the Agency continue to provide the necessary administrative support to its insurance program and its casualty affairs . . ." Heretofore, this memorandum was not formally answered by this Office, but in order to clarify our original opinion and to establish the problem involved in what we believe to be its proper perspective, we should like at this time to set forth the following points:

(a) Reference B deals with justifying Agency sponsorship of both the Insurance Branch and the Casualty Affairs Branch of the Employees Services Division. This Office certainly has no objection to the Agency bearing the full overhead expenses for the Casualty Affairs Branch. We hope that there is nothing in our original opinion which led to a contrary conclusion.

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(b) Paragraph 4 of Reference B could be misconstrued regarding the basis for our original opinion, possibly because a statement in that opinion is quoted out of context and the citation deletes a clause constituting the major emphasis of the sentence itself. Paragraph 4 says:

"It is believed that the costs of administering the insurance and casualty affairs program is an Agency responsibility in its entirety. The statement of the General Counsel, paragraph 4 of referenced memorandum, that 'However, . . . such costs should be borne by the membership', is a conclusion which merits reconsideration."

Our memorandum stated: "However, to the extent that a portion of the total costs are normal to any similar organization not confronted with the special demands imposed by this Agency, such costs should be borne by the membership." Our emphasis continues to be on the section underlined.

(c) Paragraph 4(b) of Reference B makes the argument, subsequently expanded orally, that one of the reasons the Agency should bear the complete overhead costs of the Insurance Program is that the program provides an inducement in the recruitment of personnel and serves as a morale factor in strengthening the appeal of the long term career service concept. This Office agrees that it does both. A good insurance program may well increase the morale of the employees of any department of Government. Congress has recognized this by the recent enactment of a group life insurance program and has for its consideration a group health insurance program. However, the Federal Employees' Group Life Insurance Act of 1954 contains specific authority for the Government to assume the overhead administrative costs of the program, and the group health insurance bill contains similar authorization. To illustrate our position, it is clear that if GEHA, a private corporation, could obtain agreements with underwriters to provide car insurance, real and personal property insurance, general liability insurance, etc., at preferential rates (which it might well be able to do), such action would strengthen employee morale. Morale might be further improved if GEHA undertook to promote an Agency employee club with the overhead costs borne by the Agency. However, we think that all will agree that the Agency should not use its special authorities to pay the overhead costs of an employee organization performing these activities. Similarly, we do not believe that the Agency's special authorities should be used to pay those overhead costs of GEHA which are normal to any similar organization not confronted with the special security demands of this Agency. On the other hand, we believe the Agency may, and properly should, pay those increased costs occasioned by the special security demands.

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3. It appears to this Office that part of the confusion surrounding this issue results from a failure to distinguish between the functions of the Insurance Branch and the functions of GEHA. To analyze and break down these separate functions so that a fair apportionment of the total costs could be made between the Agency and the membership is a task which would require some time, and which we have suggested should be done by an impartial committee. The Insurance Branch administers, WAEPA, for example, solely for reasons of security, and in administering GHI in a centralized manner, is performing a function similarly effected elsewhere in Government on a decentralized basis. In addition, a portion of the cost of administering other programs under the Insurance Branch may appropriately be borne by the Agency because the claims against these programs must be processed internally rather than by the underwriter.

4. Reference C states that a check has been made with various departments, including the Foreign Service, and that their insurance programs are conducted by employee collectors who enroll members and collect premiums. The claims are stated to be processed directly with the insurance association or office. The memorandum concludes that:

"The essential difference between what we do and what others do arises out of security considerations. Such considerations are required and imposed on employees by the Agency. Clearly, the employee should not be penalized for that."

5. This Office has not undertaken a comprehensive survey of the practice of other Government agencies. However, we have checked on the practice of the Foreign Service, an organization which we consider for many other purposes to be similar to ours. The Foreign Service officers and employees have formed an organization called the "Foreign Service Protective Association" which, like GEHA, is a District of Columbia non-profit corporation. This Association is physically quartered in a building at 1908 G Street, N.W., which also houses the American Foreign Service Club. The Association has been in existence since 1929 and owns the building which it occupies. It has a Board of Directors composed of Foreign Service officers, a membership of some 1,700, two full-time and one part-time employees. In addition, Mr. Allen Mathias of the Equitable Life Assurance Society acts as an insurance advisor to the Association and is paid a nominal fee. The Foreign Service Protective Association provides its membership with a comprehensive life and health insurance program. The group life insurance program is underwritten by the Equitable Life Assurance Society, the hospital and surgical expense program by the Mutual Benefit Health & Accident Association of Omaha, and the accidental death and dismemberment insurance, by the Indemnity Insurance Company of North America. Absolutely none of the overhead expenses of the Association are borne by the United States Government. The

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March 1, 1955

GROUP INSURANCE PROGRAM - BOOKLET OF MARCH 1955

The new booklet describes the group insurance program in detail. Members of the American Foreign Service Protective Association and all other Foreign Service personnel eligible to join the Association are urged to read the booklet carefully.

All claims and correspondence relating to the group insurance program should be addressed to the American Foreign Service Protective Association, c/o Department of State, Washington 25, D. C. (or 1908 G Street, N. W., Washington 6, D. C.). Delays will result if claims or correspondence are addressed to the underwriters.

The additional benefits recently approved by the Board of Directors of the Association are effective March 1, 1955, EXCEPT THAT:

Increased payments in maternity cases do not go into effect until December 1, 1955;

Increased payments under the hospital-surgical insurance will apply only to hospital confinement on and after March 1, 1955.

In order to protect their own interests and to facilitate the efficient administration of the group insurance program, members are urged to:

1. Keep the Protective Association informed of their correct addresses.
2. Inform the Association promptly regarding salary increases, resignations from the Foreign Service, or transfer to the Department of State or any other Department or Agency of the Government. These matters affect your insurance.
3. Inform the Association promptly of retirement from the Foreign Service. If retirement is upon an immediate annuity, members may continue in the group insurance program until age 65.
4. Several months before reaching age 65, members should inform the Association if they want to continue the insurance available to them after age 65.
5. Inform the Association promptly of the names and dates of birth of children so that they may be included in the hospital-surgical coverage for dependents, if members carry that insurance.
6. If children are included in hospital-surgical coverage, inform the Association if they will be full time, unmarried students after age 19. Otherwise they will be dropped at that age. If they are full time, unmarried students, the coverage can be continued to age 23.

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Foreign Service does provide a support function by remitting directly to the Association, premium allotments from members' salaries. All claims against the policies are processed to the Association which verifies the insurance status of the member to the underwriter at the time the claim is forwarded.

6. The overhead expenses of the Foreign Service Protective Association are presently paid from an annual rebate received from Equitable because of the Association's favorable mortality rate. In addition, this rebate serves to subsidize almost one-third of the premiums payable to the underwriters. In other words, last year the Association paid to the underwriters some \$360,000 in insurance premiums. Of this amount, the members paid only $62\frac{1}{2}\%$. We were advised that should this annual rebate be reduced because of an unfavorable mortality rate to a point where the administrative expenses could no longer be met by the rebate, the premiums would have to be increased to absorb the administrative overhead.

7. The Foreign Service Protective Association does not handle GHI or WAEPA. Officers and employees of the Foreign Service may take out WAEPA directly with that organization and apparently enroll in GHI in the same manner as do employees of other departments.

8. Because the Agency has merged in the Insurance Branch both those comparable programs privately sponsored by the Foreign Service Protective Association and those programs which are either entered into privately by the individual employee or through "employee collectors", the ability to distinguish between what must be paid by the Agency due to security requirements, and what is being paid because GEHA has been made a de facto operation of the Agency, has been obscured.

9. We continue to believe that a study of this problem can result in a fair apportionment of the overhead expenses of GEHA. We will be pleased to participate in such a stud [REDACTED]

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LAWRENCE R. HOUSTON
General Counsel

Attachments: Foreign Service Protective
Association Group Insurance
Program Brochure.
DD/S GEHA file.

cc: Director of Personnel
Chief, Management Staff

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